

October 30, 2003

To the Members of the Township Board
Township of Hamburg
Livingston County, Michigan

Dear Board Members:

We have recently completed our audit of the financial statements of the Township of Hamburg for the year ended June 30, 2003. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. For your information, we have also provided several legislative issues that could affect the Township.

Reportable Condition

In planning and performing our audit of the financial statements of the Township of Hamburg for the year ended June 30, 2003, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matter noted is one that came to our attention and had our procedures in internal control related matters been more extensive, other matters may have been noted.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

We noted that the bank accounts were not always reconciled to the general ledger on a timely basis. During portions of the year, it appeared that the Township's bank reconciliations were prepared approximately two to three months after the month end. This can result in errors or irregularities not being identified on a timely basis. Although we noted no errors or irregularities in cash during the audit, we encourage the Township to work to improve the timeliness of the reconciliation process where possible.

Miscellaneous Accounting and Recordkeeping Items

As a result of our examination, we offer the following comments and recommendations relating to the Township's accounting and recordkeeping procedures:

Special Assessments

During our testing, we noted that some Township engineering expenses were misallocated to a special assessment district versus a general Township expense. While these expenses were identified prior to our testing and properly removed from the SAD by the Township, we recommend that the Township institute a more formal approval process for SAD expenses to help guard against improper allocations.

Customer Receivables

During our testing, we noted that some of the customer receivable balances in the Enterprise Fund were over 90 days old. We again encourage the Township to focus on the collection of these receivables and perhaps review and adjust the collection practices.

Vacation and Sick Accruals

There are instances where the hours accrued for employees exceed the maximum hours allowed to be accrued. The Township should monitor the hours accrued and follow the policy in place. In addition, we recommend that the Township accounting department maintain all vacation, sick, and comp time records.

Purchasing System

It was noted that the current purchasing system is not always operating as designed. For example, we found that various vendor invoice dates precede the date of the approved purchase order. We encourage the Township to review the current system that is in place and determine if adjustments should be made in current practices to strengthen the controls of the system.

Legislative Issues

State Shared Revenue

The Township has and will continue to feel the effects of the slow down in the State's economy. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties constant (or frozen) at the fiscal year 2001/2002 level. This recommendation included a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002-2003 budget. The attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

Currently, the budget proposed for the State's 2003/2004 fiscal year included another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We will continue to update the Township as developments occur.

Personal Property Tax

As you are aware, the State Tax Commission approved several years ago new personal property tax tables for utilities. The new tables made drastic changes to the transmission and distribution property of utilities. General estimates are that the use of the new utility tables results in approximately a 30% revenue loss on those properties. The Township, like many other communities, has elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables. This issue was the subject several lawsuits brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. The State is currently in the process of determining how refunds will be made on appeals filed by the utilities pending the final resolution of this matter. We encourage the Township to continue to monitor these developments as the Township could be negatively impacted by the outcome.

Municipal Finance Act Revisions – Reminder

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township's year end (June 30, 2003) and is good for one year thereafter.

New Financial Reporting Model

As we have mentioned previously, the GASB has introduced its new financial statement reporting model. It would be an understatement to say that this new reporting model will have a significant impact on the Township's accounting department. The Township needs to consider the following in order to implement the new model:

- Whether there are significant open issues with the pronouncement (significant transactions or account balances that are not addressed by the new rules)
- Whether any new systems will need to be put into place in order to obtain the data necessary for the new reporting model; examples might include:
 - The new capital asset recording requirements that may require new or modified fixed asset reporting software
 - New requirements to measure and record employee sick and vacation pay, or retiree health care obligations

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- A method to assign charges for services to the specific expenditures to which they relate
- Whether the cost of gathering the data will exceed the benefits derived from the new information (which is intended to include an improved comparability of financial information with other communities)

The Township needs to take various steps in the near future to prepare for this new reporting model, including:

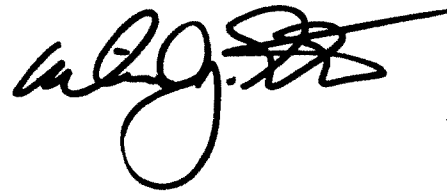
- Updating and verifying its fixed asset listing, based on physical observation and estimates (this may also be useful for insurance purposes, both in substantiating a property claim and for ensuring the appropriate limit of property insurance)
- Obtaining an actuarial update of the estimated liability for retiree health care (this might also be useful in evaluating the extent to which the Township can currently fund this obligation)

The Township personnel have already discussed and requested some assistance from Plante & Moran with the implementation process.

We would like to thank the entire Township staff, particularly Laurie Pravato, for the cooperation we received in completing this year's audit. Please contact us if you have any questions or comments related to our suggestions, or if we can be of any help in their implementation.

Very truly yours,

Plante & Moran, PLLC



Michael J. Swartz


Martin J. Olejnik

MJS/MJO/bb